



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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STATE TREASURER ANGELIDES URGES QUICK ACTION FROM GOVERNOR ON TRIBAL GAMING BONDS

Letter to Governor Spells Out Steps Necessary to Avoid Jeopardizing Critical Transportation Funding

SACRAMENTO, CA – California State Treasurer Phil Angelides today sent a letter to Governor Schwarzenegger, laying out the steps the Administration must take in order to proceed with the sale of tribal gaming bonds assumed by the Department of Finance to take place in January 2005.

Recent budgets – including Governor Schwarzenegger's FY 2004-05 budget – have raided transportation funds to help plug deficits. The proceeds from these bonds are slated to repay loans from the State's transportation accounts to ensure the funding of critical road and transit projects. Delaying the sale of the bonds could imperil these important projects.

"The Governor must act now to clear out the road blocks so that critical transportation projects can move forward," explained Angelides.

Despite Angelides' consistent opposition to long-term borrowing to cover budget deficits, such as that proposed by the tribal gaming bonds, the Treasurer expressed his commitment to ensuring the expeditious sale of these bonds on the best terms for the taxpayers of California. The letter to the Governor pointed out that despite the Treasurer's opposition to the \$15 billion deficit bonds championed by Schwarzenegger, Angelides worked quickly and efficiently to sell the first \$10.9 billion of those bonds.

The Treasurer's Office has devoted significant time and effort to prepare the tribal gaming bonds for sale; however, they have now reached a point where they cannot proceed any further until the Schwarzenegger Administration resolves two specific issues detailed in the letter:

1. Obtain for the State the necessary tribal financial information required to sell the bonds.
2. Resolve the issues raised by pending litigation regarding tribal gaming compacts related to the bonds.

The Treasurer's letter to the Governor also outlined an alternative solution to protect critical funding for transportation projects in the event that issues related to the tribal

gaming bonds cannot be quickly resolved. Angelides pointed out that \$4.1 billion still remains from the \$15 billion in deficit bonds approved by the voters in March – a portion of which could be sold within two months to enable the General Fund to repay the transportation funds.

NOTE: A copy of the Treasurer's letter to the Governor is available at www.treasurer.ca.gov.

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PHILIP ANGELIDES
Treasurer
State of California

December 23, 2004

The Honorable Arnold Schwarzenegger
Governor
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger:

The 2004-05 budget assumes \$1.2 billion in funding will be made available to transportation projects in California through the repayment of loans made to the General Fund from transportation accounts in prior years. The budget also specifies that the funds for such repayment would come from the sale of tribal gaming bonds, assumed by the Department of Finance to take place in January 2005. This office has previously indicated that the net proceeds of such bonds will likely be closer to \$800 million, instead of the \$1.2 billion assumed in the budget.

As you are aware, I have consistently opposed long-term borrowing, such as that proposed by the tribal gaming bonds, to cover budget deficits. This practice endangers the State's ability to issue debt to finance the critical infrastructure needed to secure California's economic future.

Notwithstanding my policy objections, my office, as agent for sale, is committed to ensuring the expeditious sale of these bonds on the best terms for the taxpayers of California. In that vein, our professional public finance staff has diligently worked since September to prepare the tribal gaming bonds for sale, in concert with representatives from the California Infrastructure and Economic Development Bank (CIEDB) and the Department of Finance (DOF), who are together leading this sale on behalf of your Administration. As you know, while I also opposed the \$15 billion in deficit bonds you championed earlier this year, my office did its very best in bringing those bonds to market 10 weeks after voters approved them.

This office has devoted significant time and effort to preparing the tribal gaming bonds for sale. Among other things, we appointed a financing team in September and have developed a proposed, preliminary credit structure that will help assure the lowest possible cost for the taxpayers. However, we are at a point where we cannot and will not be able to proceed any further until your Administration resolves the following two issues:

1. Tribal Financial Information

The Administration must obtain the confidentiality agreements with the tribes to provide this office with the necessary tribal financial information required to sell the bonds. As agent of sale, this office needs to have access to the same financial information made available to the underwriters, credit analysts, and providers of bank credit and bond insurance to carry out our fiduciary responsibility of negotiating the best prices and thus ensure the lowest borrowing cost to the State. The professional public finance staff has made this request of the DOF and CIEDB since September of this year. In addition, I explained the need for the tribal financial information in a public briefing on October 7, 2004. As of this writing, my office has yet to receive the requisite financial information from any tribe and has received only one signed confidentiality agreement, which would effectively permit provision of the tribal financial information to this office.

2. Litigation

The Administration must satisfactorily resolve the issues raised by the litigation (*Glendon B. Graig, et al. v. Schwarzenegger, et al.*, Alameda County Superior Court Case No. RG04175471, (September 15, 2004)) challenging the constitutionality of AB 687, which approved amendments to the five gaming compacts that support the issuance of the tribal gaming bonds. The challenges are based on several provisions of the Constitution including language added by Proposition 58, the "Balanced Budget Act," which you sponsored on the March 2004 ballot. Unless the Attorney General and bond counsel can issue opinions that litigation has no merit, bonds cannot be sold with pending litigation that directly challenges the validity of the bonds and the source of repayment. To successfully move the bonds to market, the litigation must be resolved by your Administration or, alternatively, the Attorney General's Office and the bond counsel your Administration has retained must render opinions satisfactory to the bond market.

Without a swift resolution of these issues, the tribal gaming bonds cannot be sold in a timely manner and the construction of the transportation projects they are meant to finance will be jeopardized. We are aware, for example, of approximately \$365 million in transportation projects, meant to be funded with proceeds of these bonds and proceeds of GARVEE bonds (which generate transportation funds today based on federal transportation revenues in the future) that are due for funding in early 2005. This may be but one small portion of the transportation projects imperiled if these issues are not resolved and the bonds sold.

If the issues related to the tribal gaming bonds cannot be timely resolved, there is an alternative available to protect critical funding for transportation projects. As you know, in March 2004 the voters authorized the sale of \$15 billion in deficit bonds to fund the accumulated budget deficit and other General Fund obligations. To date, the State has issued only \$10.9 billion of deficit bonds. You could choose to sell \$1.2 billion of those bonds, instead of the tribal gaming bonds, to enable the General Fund to repay the transportation loans.

Governor Arnold Schwarzenegger

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You can rest assured that I, along with the professional public finance staff of the State Treasurer's Office, am willing and ready to do all that it takes to get the tribal gaming bonds sold once the two major hurdles described above are removed. We are similarly prepared to proceed with the issuance of deficit bonds if that is the strategy chosen. It is our view that the sale of the deficit bonds could be completed within six to eight weeks. Using the proceeds from the sale of the deficit bonds to repay the transportation loans would also require legislative action.

I am available to discuss these issues with you at your earliest convenience. I think we can both agree that repaying the transportation loans to provide funding for roads and transit is crucial and merits our immediate attention.

Sincerely,

A handwritten signature in blue ink, appearing to be "Phil Angelides", is written over a light blue rectangular background.

Phil Angelides

State Treasurer

cc: The Honorable Bill Lockyer, Attorney General
 The Honorable Don Perata, Senate President Pro Tem
 The Honorable Fabian Núñez, Speaker of the Assembly
 The Honorable Tom Torlakson, Senator
 The Honorable Jenny Oropeza, Assemblymember
 Tom Campbell, Director, Department of Finance
 Sunne Wright McPeak, Secretary, Business, Transportation and Housing Agency